

United States General Accounting Office

GAO

AD-A254 563



Report to the Chairman, Legislation and  
National Security Subcommittee,  
Committee on Government Operations,  
House of Representatives

August 1992

## DEFENSE PROCUREMENT

### Need to Improve Internal Controls on Deferred Contractor Debts



92-24109



National Security and  
International Affairs Division

B-248472.1

August 20, 1992

The Honorable John Conyers, Jr.  
Chairman, Legislation and National  
Security Subcommittee  
Committee on Government Operations  
House of Representatives

Dear Mr. Chairman:

This report responds to your request that we review all contractor debt deferments granted by Department of Defense (DOD) organizations from 1980 through 1991. Specifically, you asked that we review the (1) criteria used in granting deferments, (2) number of deferments granted to small or disadvantaged businesses, (3) terms and conditions of the deferments, (4) policies and procedures used in managing deferments, and (5) resolution of the deferred debts.

## Results in Brief

Accession For	
NTIS CRA&I	<input checked="" type="checkbox"/>
DTIC TAB	<input type="checkbox"/>
Unannounced	<input type="checkbox"/>
Justification	
By	
Distribution /	
Availability Codes	
Dist	Avail and/or Special
A-1	

DOD lacks adequate internal controls over contractor debt deferments. DOD does not know how many contractor debts it deferred between 1980 and 1991, the status of those debts, or how much money was involved. As of December 31, 1991, the best available documentation we could find indicates that 93 cases with contractor deferred debts of about \$1.6 billion were open.

The criteria for granting or denying a deferment are in the Federal Acquisition Regulation (FAR) and DOD FAR Supplement (DFARS). However, these regulations allow a great deal of flexibility and a heavy reliance on the discretion of government contracting officials.

The debt files we reviewed do not identify whether contractors are small or disadvantaged businesses, but some deferments were granted to large companies.

The terms and conditions in the various deferment agreements that we reviewed were very similar and appeared to protect the government's interest, if properly administered. However, 38 of the 72 debt files we reviewed, or about 53 percent, did not contain deferment agreements.

Most debts were deferred after the contractors disputed and appealed them. Once these debts were deferred, the files indicate that little or no action was taken to manage the account. In 45 of the 72 files, or about

IC QUALITY INSPECTED 3

63 percent of the files, there had been no reported activity for 5 years or more. Most of these files did not contain the required documentation. Long after cases were resolved, the responsible officials did not know the status of these debts, and debts owed the government appeared to be uncollected.

## Background

The deferment that prompted the Subcommittee's request for this report was the largest contractor debt deferment in the period 1980 through 1991. This deferment was the direct result of the January 7, 1991, Navy default termination of the A-12 development contract. The Navy contracting officer, on February 5, 1991, issued a demand letter to the A-12 contractor team of McDonnell Douglas Corporation and General Dynamics Corporation for repayment of \$1,352,459,644 in progress payments for which no completed items had been accepted by the government. On the same day, at the request of the A-12 contractor team, the Navy—with DOD approval—agreed to defer the repayment until litigation over the termination is resolved in court or a negotiated settlement is reached. As of July 10, 1992, this matter was unresolved.

Contractors' debts arise in various ways. The above example is one in which a debt is created when progress payments are made by the government for products or services that a contractor does not deliver. For most debts, the contracting officer is responsible for determining the amount of debt and demanding repayment. Collection efforts begin with a letter from the contracting officer to the contractor demanding payment. The letter includes a description of the debt, notice that interest will accrue on the unpaid balance 30 days after the letter is issued, and notice that the contractor may submit a proposal to defer the debt if immediate payment is either not practicable or the amount due is disputed. When a contractor requests a deferment, the contracting officer provides the contract financing officer a recommendation on deferring the debt.

FAR 32.613 and DFARS 232.6 govern DOD's debt deferments. These regulations specify the information a contractor is required to submit to support a deferment request. If a contractor disputes owing the debt and appeals to either the Armed Services Board of Contract Appeals (ASBCA) or the U.S. Claims Court, information with the request for deferment may be limited to an explanation of the contractor's financial condition. If no appeal is pending, a contractor is required to provide information describing its financial condition, contract backlog, projected cash flow requirements, and the probable impact immediate payment of the debt would have on its business operations.

---

Until January 20, 1991, each of the military services and DOD agencies had the authority to grant deferments for the debts owed on their contracts, collect debts that became due, close the accounts receivable files, and ship them to storage. On January 20, 1991, these duties were split. The services and DOD agencies retained authority to grant deferments, but a new agency—the Defense Finance and Accounting Service (DFAS)—was granted authority to manage the accounts receivable for all of DOD. DFAS is organized by finance centers: the Washington Center administers accounts receivable on Navy and Defense Logistics Agency (DLA) contracts, the Indianapolis Center on Army contracts, the Denver Center on Air Force contracts, and the Kansas City Center on Marine Corps contracts.

---

## Internal Control Standards

According to the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b)), federal departments and agencies are to have internal control systems that reasonably ensure that (1) applicable law and regulations are being complied with; (2) all assets are safeguarded against waste, loss, unauthorized use, and misappropriation; and (3) revenues and expenditures are recorded and accounted for properly so that accounts and reliable financial and statistical reports may be prepared and accountability of the assets may be maintained.

Internal control standards require, among other things, that all transactions and other significant events concerning the assets be clearly and promptly documented and that the documentation be readily available for examination. Accountability for the custody and use of the asset records should be assigned, and the records should be periodically reviewed based on the vulnerability of the assets. The standards also require supervision to ensure that the internal control objectives are achieved.

---

## Number of Deferments Granted Is Unknown

DOD officials estimate that there may have been between 300 and 400 deferments granted between 1980 and the end of 1991, but their estimate is imprecise because neither the military services nor DOD agencies maintain centralized documentation identifying deferred contractor debts. The available debt files indicate that 93 deferred debt cases were open as of December 31, 1991.

---

Each military service and DOD agency maintains a data base on its accounts receivable.<sup>1</sup> However, these data bases do not distinguish between accounts receivable resulting from deferred and nondeferred debts. In addition, when a contract debt deferment file is closed, it is merged with other information in the contract file and not maintained separately. Without separate files or data bases on closed deferments, it would be a difficult and time-consuming task for DOD to develop a history on its deferment of contractor debts.

As shown in appendix I, at the DFAS Washington Center, we found 72 open files on debts deferred by DLA that were transferred to DFAS upon its creation. In addition, after contacting officials of the military services and DLA, DFAS provided limited information from other debt files on 20 additional deferments shown in appendix II. These 20 included the 10 deferments listed in DOD's Director of Defense Procurement's April 1991 testimony before the Subcommittee and all other deferred debts being managed by the military services and DLA as of December 31, 1991. Appendix III is a summary of the known open contractor debt files as of December 31, 1991.

---

## Flexible Criteria Are Used in Granting Deferments

The criteria set forth in the FAR and DFARS specifying how debt deferment requests should be evaluated and granted or not granted provide a considerable degree of flexibility. The FAR states that if the contractor disputes the debt and appeals the contracting officer's decision, the debt may be deferred to avoid over collection. In addition, the FAR states that deferments, pending disposition of an appeal, may be granted to small or financially weak contractors, after balancing a need for government security against loss and undue hardship on the contractor.

The deferment information we reviewed did not positively identify contractors as small or disadvantaged businesses. However, we noted that some debt deferments were granted to large, well-known defense contractors such as General Motors, McDonnell Douglas, and Lockheed.

If a contractor does not dispute or appeal the debt and is unable to pay the debt in full or the contractor's operations under national defense contracts

---

<sup>1</sup> Contractor debts are carried on the government's records as accounts receivable from the public and reported quarterly to the Secretary of the Treasury on Standard Form 220-9.

---

would be seriously impaired, the deferring official may arrange for a deferment.

The DFARS stipulates that a deferment request will be forwarded to the contract financing office as soon as possible with all required supporting information and a recommendation for action on the deferment request. When a request is denied, the financing office is required to give timely notice to the contracting officer.

---

## Terms and Conditions of Deferments Meet Regulatory Requirements

Approved deferment requests are to be formalized in deferment agreements. The agreements must have a minimum set of terms and conditions in accordance with FAR 32.613(h), including a description of the debt, the date the debt was established, interest charges, and several provisions designed to protect the government's interests.

We obtained and reviewed 52 deferment agreements on debts disputed and appealed by contractors. We found 34 in the 72 DLA files we reviewed and DFAS provided 18 on the additional 20 debts. Each Air Force, DLA, and Navy deferment agreement included the terms and conditions required by the FAR and all had similar wording. Most agreements contained a clause in which the contractor agreed to maintain sufficient assets or available credit to cover the deferred amount plus accrued interest.<sup>2</sup>

Contractors who enter into deferment agreements agree to provide financial information and access to records and property at the government's request. If the contracting officer believes circumstances warrant, the contractor can be required to take additional steps to protect the government's interests—such as pledging collateral or subordinating other indebtedness to the debt owed the government. However, we found no evidence in the files that a contractor had been required to pledge collateral to secure a deferment.

The agreements contain a clause that permits the government to terminate the agreement and collect the balance of the debt if the contractor defaults or enters into bankruptcy or insolvency proceedings. Further, if the

---

<sup>2</sup>Interest is applied to these debts at a rate set by the Secretary of the Treasury as provided in Public Law 92-41. This rate is adjusted every January and July by the Secretary to reflect current commercial loan interest rates. Simple interest is applied to contract debts as opposed to compound interest. Simple interest is computed only on the original principal throughout the deferment period, while compound interest is computed on an ever increasing amount because of the repeated addition of interest to the existing principal.

---

contractor has appealed the debt, failure to diligently pursue the appeal can be grounds for the government to terminate the agreement.

---

## Management of Debt Deferment Records by DLA Was Deficient

Although we were able to reconstruct some information from other sources, the 72 DLA debt files we reviewed, for the most part, did not contain the documents required by the FAR. Information on the status of the appeals was not in the files; there had been no follow-up inquiries for as long as 5 years; and although the majority of the disputed cases had been resolved, the files remained open. Because cases were shown as open, there is no indication of whether remittance was due or had been collected for those disputes involving rulings in favor of the government. The poor condition of the files on DLA's deferred debts did not meet the objectives of good internal control standards and were an indication of management deficiencies.

---

## Documentation of Transactions on DLA's Deferred Debts Is Incomplete

In reviewing the 72 open debt files that had been transferred from DLA to the Washington Center upon the creation of DFAS as shown in appendix I, we found the files to be incomplete in documenting the transactions and events concerning the debts.

Of the 72 files we reviewed, only 34 contained deferment agreements. Most of the files did not contain financial information—such as annual reports and other financial disclosure statements—that contractors are required to furnish with their deferment requests. Only 21 of the 72 files contained the debt control record document required by regulation. FAR 32.606(c) stipulates that a control record be created for each contract debt, deferred and non-deferred alike. The control record contains basic descriptive information about a debt, such as the name and address of the contractor; the contract number; the debt amount; the date the debt was created; the dates of demands for payment; the amounts, dates, and status of collections; and the date of any appeal filing.

---

## Resolution of DLA's Debt Deferments Was Unknown by DFAS

About 77 percent of the DLA disputed debt cases we reviewed had been decided and, in some cases, money was owed the government, but the responsible DFAS officials were unaware of the current status of these accounts. Thus, it appears these accounts receivable had not been collected. Moreover, the debt files had not been periodically reviewed and no supervisor had ensured that proper internal controls had been implemented.

Of the 72 DLA deferred debts, the files showed that 62 debts had been disputed and appealed. The files did not contain information indicating whether the remaining 10 debts had been disputed and appealed. In 61 of the files, no activity had been reported for 2 or more years, and 45 of the files had no reported activity for 5 or more years. For example, in July 1984, a contractor appealing to the ASBCA settled the dispute by agreeing to pay \$97,260 to the government. The debt was to be paid in annual payments of \$19,452 over a 5-year period. In September 1984, DLA's Office of the Comptroller acknowledged receipt of the contractor's first payment. However, the account file does not indicate whether further payments were made on this debt or collection actions were taken.

Because DFAS officials were unaware of the status of the 62 disputed debts, we contacted the ASBCA. In response to our inquiries, the ASBCA advised us that 14 of the 62 disputes were still active and 48 had been resolved. Of these 48 cases, the ASBCA indicated that some benefits could have accrued to the government in 43 cases. In one case, for example, we found a contractor debt of \$547,775 (plus interest through December 1991 of \$362,676) was decided in favor of the government in April 1987. The last time the file was annotated, however, was the date the deferment agreement was entered into, that is, July 1985.

According to the FAR, payment is due in full once an appeal has been decided. Each of the deferment agreements that we examined contained a clause requiring payment in full within 15 days of the appeal's being decided. However, there was no indication in the files that any action had been taken to resolve the 48 debts and close the files. At the completion of our work at the Washington Center, all 72 DLA files remained open.

## Recommendations

We recommend that the Secretary of Defense direct the head of DFAS to immediately begin collection efforts on all formerly disputed debts that have been resolved with some monies being owed the U.S. government, including applicable interest.

We also recommend that the Secretary of Defense direct the military services and DOD agencies to implement the appropriate internal controls to manage, safeguard, and control accounts receivable on deferred debts. These controls should be consistent with the Federal Managers' Financial Integrity Act of 1982 (31 U.S.C. 3512(b)) and the Comptroller General's Standards for Internal Controls in the Federal Government. Such controls should ensure, among other things, compliance with the FAR and DFARS,



---

prompt collection of funds in disputed debt cases resolved in the government's favor, and proper maintenance and periodic reviews of debt records.

---

## Open and Methodology

We interviewed officials from the following DOD organizations: the DOD Comptroller's office; DFAS; the ASBCA; DLA; and the Departments of the Army, Navy, and Air Force. Because DOD officials told us that DLA accounted for the largest share of deferments granted, we focused our efforts on DLA's deferred debts by reviewing the DLA files at the DFAS Washington Center in Alexandria, Virginia. We gathered and analyzed data on all 72 of DLA's open debt files, at the DFAS Washington Center. We also examined information provided by DFAS officials on deferments mentioned in the Director of Defense Procurement's April 11, 1991, testimony and all other open deferred debts managed by the military services and DLA through December 1991. This amounted to an additional 20 deferments<sup>3</sup> shown in appendix II.

We did not contact each of the contractors, government contracting officers, or contract administration personnel associated with the deferred debts recorded in the files we examined.

We conducted our review from May 1991 through June 1992 in accordance with generally accepted government auditing standards. As requested, we did not obtain DOD comments on this report. However, we did discuss our findings with Defense procurement and contract financing officials.

---

Unless you publicly announce its contents earlier, we plan no further distribution of this report until 15 days from the date of this letter. At that time, we will send copies to other interested congressional committees; the Secretaries of Defense, Army, Navy, and Air Force; the Directors of DLA, DFAS, and the Office of Management and Budget. We will also make copies available to others upon request.

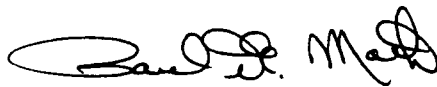
---

<sup>3</sup>This included two deferments the Subcommittee staff specifically requested that we cover in our work. Our analysis of these two deferments was provided in a separate briefing to the staff.

---

Please contact me at (202) 275-4587 if you or your staff have any questions concerning this report. Major contributors to this report were John A. Rinko, Assistant Director; Robert W. Fain, Evaluator-in-Charge; and Marc J. Schwartz, Evaluator.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Paul F. Math". The signature is stylized with loops and a large initial "P".

Paul F. Math  
Director, Research, Development,  
Acquisition, and Procurement Issues

# ontents

ter	1
pendix I e Defense Finance d Accounting Service ashington Center bt Files	12
pendix II resolved Deferments anted by the Navy, Force, and DLA as December 31, 1991	17
pendix III mmary of Contractor bt Deferments waiting Resolution as December 31, 1991	19
bles	
Table I.1: Summary of Information From the Washington Center Debt Files	12
Table II.1: Summary of Information on Unresolved Deferments	17
Table III.1: Total Amount of DOD Contractor Debt Deferments as of December 31, 1991	19

## Abbreviations

ASBCA	Armed Services Board of Contract Appeals
DOD	Department of Defense
DFARS	DOD FAR Supplement
DFAS	Defense Finance and Accounting Service
DLA	Defense Logistics Agency
FAR	Federal Acquisition Regulation



# The Defense Finance and Accounting Service Washington Center Debt Files

We obtained the summary information in this appendix from files located at the Washington Center, Defense Finance and Accounting Service (DFAS) on 72 debts deferred by the Defense Logistics Agency (DLA) during the 1980s, and data obtained from the Armed Services Board of Contract Appeals (ASBCA) on debt disputes appealed by the contractors. However, because DLA's files were incomplete, the amount of the recorded original debt may not necessarily represent a valid current contractor debt to the U.S. government. For example, ASBCA's case status information on disputed debts—identified by docket numbers in the file—showed that most disputes were resolved, yet the DFAS files had not been closed. The interest on the debts would be relevant only if the dispute is ultimately decided in favor of the government for the full amount of the deferred debt. Interest amounts shown on the debts for which the outcome is unknown reflect the fact that the files were carried as uncollected debts.

**Table I.1: Summary of Information From the Washington Center Debt Files**

Name of the contractor	Date of the debt	Amount of deferment	Debt status based on DFAS file contents
Airline Instruments, Incorporated	1984	\$97,260	Disputes settled by the government and contractor in July 1984. First of five annual installment payments of \$19,452 collected on Sept. 6, 1984. The file shows \$77,808 is uncollected.
Anchor Conveyors, Incorporated	1988	407,072	Unknown. Interest as of Dec. 31, 1991, was \$130,397.
ATAC	1989	205,177	Unknown. Contractor disputed the debt and a deferment was granted in Apr. 1990. ATAC appealed to the ASBCA, but the ASBCA had no data on an appeal by this firm. Interest as of Dec. 31, 1991, was \$44,763.
Atlantic Petroleum Corporation	1987	15,485	Dispute decided in favor of the government in Sept. 1991. Interest as of Sept. 29, 1991, was \$6,345.
Beta Systems	1988	43,533	Dispute decided in favor of the contractor in May 1990.
Bridges Enterprises, Incorporated	1983	111,182	Dispute settled by the government and contractor in May 1985. Settlement terms are not on file. Interest as of May 16, 1985, was \$31,249.
Carellon Production Products, Incorporated	1982	203,422	Dispute settled by the government and contractor in Nov. 1985. Settlement terms are not on file. Interest as of Nov. 25, 1985, was \$79,016.
CCP Manufacturing	1984	21,682	Dispute decided in favor of the contractor in May 1984.
Clay Bernard Systems International	1980	334,632	Dispute decided in favor of the government. Decision was appealed and reinstated before the ASBCA in July 1991. Dispute still active. Interest as of Dec. 31, 1991, was \$404,057.

(continued)

**Appendix I  
The Defense Finance and Accounting Service  
Washington Center Debt Files**

<b>Name of the contractor</b>	<b>Date of the debt</b>	<b>Amount of deferment</b>	<b>Debt status based on DFAS file contents</b>
Clay Bernard Systems International	1981	\$2,290,628	Dispute decided in favor of the government. Decision was appealed and reinstated before the ASBCA in Apr. 1991. Dispute still active. Interest as of Dec. 31, 1991, was \$2,568,735.
Coastal States Trading, Incorporated	1982	523,755	Dispute settled by the government and contractor in Mar. 1986. Settlement terms are not on file. Interest as of Mar. 3, 1986, was \$233,936.
Comada Corporation	1981	4,173,005	Unknown. Interest as of Dec. 31, 1991, was \$4,577,758.
Coronado Technology, Incorporated	1986	41,543	Dispute settled by the government and contractor in Aug. 1989. Settlement terms are not on file. Interest as of Aug. 7, 1989, was \$11,925.
Culligan Water Conditioning	1985	5,274	Dispute decided in favor of the government in Sept. 1985. Defense General Supply Center issued two demand letters in Oct. 1985 and Jan. 1986. On Sept. 19, 1991, Washington Center, DFAS issued another demand letter. The file shows that the debt remains uncollected. Interest as of Dec. 31, 1991, was \$3,280.
Culligan Water Conditioning	1985	14,982	Dispute decided in favor of the government in Sept. 1985. Defense General Supply Center issued two demand letters in Oct. 1985 and Jan. 1986. On Sept. 19, 1991, Washington Center, DFAS issued another demand letter. The file shows that the debt remains uncollected. Interest as of Dec. 31, 1991, was \$8,366.
DCX, Incorporated	1988	561,070	Dispute is still active. Interest as of Dec. 31, 1991, was \$173,415.
Devault Equipment Company	1985	105,556	Dispute decided in favor of the contractor in Nov. 1986.
Dynamics Corporation of America	1984	722,953	Dispute dismissed by the Claims Court in July 1986. The Court found for the government on Count I and for the contractor on Count II. Resolution of the debt is unknown. Interest was not calculated.
East-West Research, Incorporated	1985	31,773	Dispute decided in favor of the contractor in Aug. 1986.
East-Wind Industries, Incorporated	1982	236,738	Dispute settled by the government and contractor in Sept. 1986. Settlement terms are not on file. Interest as of Sept. 18, 1986, was \$136,231.
East-Wind Industries, Incorporated	1985	1,691,000	Dispute decided in favor of the government. Decision appealed by the contractor. Dispute reinstated before the ASBCA in Sept. 1991. Interest as of Dec. 31, 1991, was \$1,030,392.
Eaton Corporation	1986	14,672,000	Dispute is still active. Interest as of Dec. 31, 1991, was \$6,620,539.
Educational Computer Corporation	1983	264,148	Dispute settled by the government and contractor in Aug. 1987. Settlement terms are not on file. Interest as of Aug. 5, 1987, was \$129,372.

(continued)

**Appendix I  
The Defense Finance and Accounting Service  
Washington Center Debt Files**

<b>Name of the contractor</b>	<b>Date of the debt</b>	<b>Amount of deferment</b>	<b>Debt status based on DFAS file contents</b>
Emerson Electric Company	1988	\$719,618	Dispute settled by the government and contractor in Feb. 1991. Settlement terms are not on file. Interest as of Feb. 28, 1991, was \$188,961.
Garrett Engine Division, Allied-Signal Aerospace Company	1988	105,241	Contractor lodged two appeals before the ASBCA: One was settled by the government and contractor in July 1991. The other dispute was decided in favor of the government, appealed in Feb. 1990, and is still active. Interest as of Dec. 31, 1991, was \$34,442.
General Aero Products Corporation	1984	20,207	Dispute settled by the government and contractor in May 1986. Settlement terms are not on file. Interest as of May 16, 1986, was \$4,216.
General Motors Corporation	1984	2,035,000	Dispute is still active. Interest as of Dec. 31, 1991, was \$1,379,409.
General Optical Ltd.	1980	115,001	Dispute decided in favor of the government in Dec. 1983. The file shows no collection. Interest as of Dec. 31, 1991, was \$127,983.
Genii Research, Incorporated	1984	547,775	Dispute decided in favor of the government in Apr. 1987. The file shows no collection. Interest as of Dec. 31, 1991, was \$362,676.
H. G. Fischer, Incorporated	1981	52,297	Dispute settled by the government and contractor in Mar. 1984. Settlement terms are not on file. Interest as of Mar. 27, 1984, was \$22,105.
H. G. Fischer, Incorporated	1981	31,836	Dispute settled by the government and contractor in Mar. 1984. Settlement terms are not on file. Interest as of Mar. 30, 1984, was \$13,138.
Honeywell, Incorporated	1987	466,467	Dispute settled by the government and contractor in Sept. 1990. Settlement terms are not on file. Interest as of Sept. 5, 1990, was \$139,681.
Interpipe, Incorporated	1988	1,511	Unknown. Interest as of Dec. 31, 1991, was \$444.
Issachar Manufacturing Company, Incorporated	1980	1,903,160	Unknown. File notes contractor is bankrupt. Interest as of Dec. 31, 1991, was \$2,484,784.
Kenco, Incorporated	1983	97,018	Unknown. Interest as of Dec. 31, 1991, was \$76,378.
Lamar Electro-Air Corporation	1988	87,313	Dispute settled by the government and contractor in July 1990. Settlement terms are not on file. Interest as of July 30, 1990, was \$15,529.
Lewisburg Supply Company	1984	64,768	Dispute decided in favor of the contractor in Feb. 1985.
MKB Manufacturing Corporation	1983	7,201	Unknown. Dispute settled by the government and contractor in Sept. 1984. Terms of settlement are not on file. File notes contractor is bankrupt.
MKB Manufacturing Corporation	1984	1,037	Unknown. File notes contractor is bankrupt.
The Marquardt Company	1986	3,215,984	Contractor appealed the ASBCA decision for the government to the Circuit Court of Appeals. Last entry in file of Aug. 27, 1987, indicated Court decided for the government. File does not show the debt was collected. Interest as of Dec. 31, 1991, was \$1,457,916.
Martin Machine Works	1984	350	Unknown. Interest as of Dec. 31, 1991, was \$250.

(continued)

**Appendix I  
The Defense Finance and Accounting Service  
Washington Center Debt Files**

<b>Name of the contractor</b>	<b>Date of the debt</b>	<b>Amount of deferment</b>	<b>Debt status based on DFAS file contents</b>
Atomco Oil Company, Incorporated	1982	\$52,243	Contractor's appeal was dismissed in favor of the government in May 1986. File does not show the debt was collected. Interest as of Dec. 31, 1991, was \$53,888.
McDonnell Douglas Corporation	1984	3,089,194	Dispute settled by the government and contractor in Apr. 1985. Terms of settlement are not on file. Interest as of Apr. 24, 1985, was \$403,690.
McDonnell Douglas Corporation	1985	520,000	Contractor's appeal was dismissed in favor of the government in July 1986. File does not show the debt was collected. Interest as of Dec. 31, 1991, was \$316,338.
Microwave Semiconductor Corporation	1984	28,594	Dispute appealed to the Circuit Court of Appeals in Aug. 1987. File does not show a decision has been issued. Interest as of Dec. 31, 1991, was \$20,227.
Monroe Garment Company	1983	151,253	This debt dates back to a 1975 ASBCA decision for the government. In 1983, the debt was compromised for \$12,000 to be paid by an initial \$5,000 on June 1, 1983, and \$1,400 on June 1, 1984, through June 1, 1988. File indicates \$4,200 remains to be collected.
Mystic Fuel Company	1980	104,732	Unknown. Appeal dismissed in favor of the government in Jan. 1983. In 1984, Justice filed a civil suit against Mystic. The file does not show the results of the action. Interest as of Dec. 31, 1991, was \$128,599.
Roll-Joy Industries	1985	100,052	Appeal was dismissed in favor of the contractor in Jan. 1988.
Roll Industries, Incorporated	1983	2,936,592	Appeal was decided in favor of the contractor in Nov. 1991.
Modessa Manufacturing Corporation	1984	14,671	In 1986, the contractor filed appeals on these debts with the ASBCA and filed for bankruptcy. In 1988, the Bankruptcy Court dismissed with prejudice the bankruptcy case and told creditors to collect their debts as if the case had never been filed. In Jan. 1990, all appeals were withdrawn by the contractor. Status of these debts is unknown.
	1984	18,441	
	1985	215	
	1985	447,794	
	1985	55,913	
	1985	183,785	
	1985	254	
Philadelphia Biologics Center, Incorporated	1986	1,433,097	In Aug. 1988, the ASBCA decided in favor of the contractor.
Professional Office Products	1989	202,239	Unknown. The contractor's attorney wrote to DLA that this disputed debt had been appealed, however the ASBCA has no record of such an appeal. Interest as of Dec. 31, 1991, was \$42,753.
Rosemount, Incorporated	1988	242,278	According to the ASBCA, as of June 1992, this appeal is still active. Interest as of Dec. 31, 1991, was \$75,866.
The Russell Corporation	1985	140,464	Unknown. The contractor appealed to the U.S. Claims Court in 1985. DLA deferred the debt in 1986, and no activity on the debt shown in the file since. Interest as of Dec. 31, 1991, was \$89,043.
Sequal Incorporated	1983	6,119	Unknown. In May 1985, the ASBCA decided in favor of the government. In late 1986 an offset of \$584 was made against the debt. Interest as of Dec. 31, 1991, was \$4,952.

(continued)



**Appendix I  
The Defense Finance and Accounting Service  
Washington Center Debt Files**

<b>Name of the contractor</b>	<b>Date of the debt</b>	<b>Amount of deferment</b>	<b>Debt status based on DFAS file contents</b>
Sims Auto Parts, Incorporated	1982	\$1,888	Unknown. In 1982, the contractor wrote to DLA that the debt had been appealed to the ASBCA. The file contained no record of the appeal, and in June 1992, the ASBCA stated it had no record of an appeal. Interest as of Dec. 31, 1991, was \$1,872.
Southeastern Sandblasting and Coating, Incorporated	1985	148,731	Unknown. According to the ASBCA, the appeals were decided in favor of the government on Sept. 25, 1991, and the ASBCA decisions were appealed to the Court of Appeals. Interest as of Dec. 31, 1991, was \$95,519.
Sundstrand Data Control Group	1986	1,311,054	Unknown. The file shows that in early 1988 this dispute was settled by the government and contractor. However, the last file entry of Aug. 31, 1990, shows DLA needs a copy of another settlement before closing the debt file.
Technology Development Corporation	1986	757,482	Unknown. The ASBCA stated this dispute was settled by the government and contractor in Dec. 1987. Settlement terms are not in the file. Interest as of Dec. 16, 1987, was \$116,912.
Teledyne Continental Motors, General Products Division	1985	2,700,000	Unknown. According to the ASBCA, this dispute was decided in favor of the contractor in Mar. 1989 and the government has appealed that decision to the Court of Appeals. Interest as of Dec. 31, 1991, was \$1,710,690.
Texas Instruments	1986	146,682	The ASBCA decided in favor of the contractor in June 1989. Last file entry of June 1990 shows DLA needs a contract modification to close the file.
Varian Associates, Incorporated, Microwave Tube Division	1989	2,011,453	According to the ASBCA, as of June 1992, this appeal was still an active case. Interest as of Dec. 31, 1991, was \$428,240.
Welmetco, Ltd.	1980	760,339	Unknown. The debt file shows contractor filed Chapter XI bankruptcy proceedings in May 1979. In addition to this debt, the file shows that contractor had debts of more than \$1.6 million on two other contracts. Last file entry is estimated to be early 1984.
Winfield Manufacturing Company	1988	1,177,996	Unknown. The government and contractor settled this dispute in August 1989. Settlement terms were not on file. Interest as of Aug. 28, 1989, was \$162,846. In Sept. 1989 the contractor stopped production on five contracts with unliquidated progress payments amounting to \$12,977,748.
X-TYAL International Corporation	1984	113,035	Unknown. The debt dates from Oct. 1979. Appeal was decided in favor of the government in Mar. 1984. Payments of \$10,652 on this debt were made by contractor through Apr. 1985. Contractor received payments of \$491,000 through May 1985 on other government contracts. In June 1985, contractor filed Chapter 7 bankruptcy proceedings.

# Unresolved Deferments Granted by the Navy, Air Force, and DLA as of December 31, 1991

This summary information was provided by DFAS after receiving data from the Navy, Air Force, and DLA. According to the military services and DLA, these deferments, plus those active deferments noted in appendix I and the deferment granted on the A-12 contract, are all of the open deferments as of December 31, 1991. Whether or not the amount of deferment will remain a debt owed the government will be determined by a decision from the ASBCA or an appeals court. In addition, the government and contractor in any of these disputes could possibly settle the dispute for a lesser sum than that shown. The accrued interest shown in the comments column is relevant only if the dispute is ultimately decided in favor of the government for the full amount of the debt.

**Table II.1: Summary of Information on Unresolved Deferments**

<b>Name of the contractor</b>	<b>Date of the debt</b>	<b>Amount of deferment</b>	<b>Status and/or comments</b>
Autek Systems	1990	\$6,454,565	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$1,071,966.
Cincinnati Electronics	1990	10,957,394	Disputed debt is under active appeal before the Court of Claims. Interest as of Dec. 31, 1991, was \$1,646,273.
Cosmic Construction	1981	1,315,057	ASBCA decision of Jan. 1990 reduced government claim to \$300,000 (damages only). Payment demand letter is awaiting legal review by Air Force headquarters staff. Interest as of Dec. 31, 1991, is unknown.
Delco Electronics Corporation	1989	1,728,759	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$325,466.
Environmental Devices, Incorporated	1988	67,036	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$19,785.
FXC Corporation	1986	42,000	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$19,842.
Kammerer Construction	1990	234,370	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$37,123.
Libby Corporation	1990	2,504,816	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$232,974.
Lockheed-Georgia Company	1982	42,997,963	Disputed debt is under active appeal before the Court of Claims. Interest as of Dec. 31, 1991, was \$38,932,741.
Lockheed Aeronautical Systems Company	1987	73,668,282	Disputed debt is under active appeal before the Court of Claims. Interest as of Dec. 31, 1991, was \$26,832,410.
Lockheed Aeronautical Systems Company	1989	2,439,254	Disputed debt is under active appeal before the Court of Claims. Interest as of Dec. 31, 1991, was \$515,050.
MED-National, Incorporated	1990	93,324	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$9,578.
Monroe Wire and Cable, Incorporated	1990	356,582	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$41,519.

(continued)

**Appendix II  
Unresolved Deferments Granted by the Navy,  
Air Force, and DLA as of December 31, 1991**

<b>name of the contractor</b>	<b>Date of the debt</b>	<b>Amount of deferment</b>	<b>Status and/or comments</b>
W England Ordnance	1990	67,134	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$5,897.
General Roofing	1990	135,113	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$13,933.
Juluhn Electric	1989	21,622	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$4,236.
Lockwell International	1990	261,670	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$37,669.
Marma Corporation	1989	456,185	Dispute was settled by the government and contractor. Settlement terms were not available.
Midstrand Power Systems	1990	20,262,756	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$3,332,152.
Abco, Incorporated	1990	28,284	Disputed debt is under active appeal. Interest as of Dec. 31, 1991, was \$4,717.

# Summary of Contractor Debt Deferrals Awaiting Resolution As of December 31, 1991

In summary, there were 93 contractor debt deferrals, amounting to \$1,573,046,648, awaiting final resolution on December 31, 1991. Of this amount, \$1,352,459,644 is accounted for in the deferral granted by the Navy to the contractor team of McDonnell Douglas Corporation and General Dynamics as a result of the A-12 default termination.

The other 92 deferrals, amounting to \$220,587,004, are made up of 77 contractor debts deferred by DLA that amounted to \$78,892,841, 11 contractor debts deferred by the Air Force that amounted to \$134,944,027, and 4 contractor debts deferred by the Navy that amounted to \$6,750,136. These amounts are totaled in table III.1.

Table III.1: Total Amount of DOD Contractor Debt Deferrals as of December 31, 1991

Grantor	Number of debts	Amount deferred
DLA	72 <sup>a</sup>	\$56,494,838
DLA	5 <sup>b</sup>	22,398,003
<b>Subtotal</b>	<b>77</b>	<b>78,892,841</b>
Air Force	11 <sup>b</sup>	134,944,027
Navy	4 <sup>b</sup>	6,750,136
<b>Subtotal</b>	<b>92</b>	<b>220,587,004</b>
Navy	1 <sup>c</sup>	1,352,459,644
<b>Total</b>	<b>93</b>	<b>\$1,573,046,648</b>

<sup>a</sup>These debts are included in app. I.

<sup>b</sup>These debts are included in app. II.

<sup>c</sup>This debt is a result of the A-12 termination.